Bond Investing Tips

Determine your objectives before investing. Decide how much of your portfolio you want invested in bonds.

Diversify your bond holdings among different bond types. Consider government, corporate, and municipal bonds, as well as different industries, credit ratings, and maturities.

Understand the risks that affect bonds. The most significant risk is interest rate risk. When interest rates rise, bond values fall, while values rise when interest rates decline. Other risks include default risk, or the possibility the issuer will redeem the bond before maturity; and inflation risk, or the possibility that inflation will outpace the bond's return.

Choose bond maturity dates carefully. When you need your principal is a major factor, but the current interest rate environment may also affect your decision. Rather than investing in one maturity, you may want to stagger or ladder the maturity dates.

Follow interest rate trends. At a minimum, follow the prime rate, Treasury bill rates, and Treasury bond rates. Understand the significance of the yield curve and track its pattern over time.

Compare interest rates for specific bonds before investing. Interest rates can vary substantially among different bond types and among bonds with different maturities or credit ratings.

Research a bond before purchase. Review the credit quality, coupon rate, call provisions, and other significant factors. Determine whether the bond is appropriate for you in terms of risk, return, and maturity date.

Consider the tax aspects. By comparing the after-tax rate of return for various types of bonds, you may be able to increase your return. Depending on the bond, the interest income may be fully taxable or exempt from federal and/or state income taxes.

Review your bond holdings periodically. Evaluate the credit ratings of all your bonds at least annually to ensure the quality hasn't deteriorated.

Call for assistance with your bond holdings. You should use carefully designed strategies to make bond decisions. Please call if you need help. ❍❍❍

Your Bond Allocation

Your asset allocation mix represents your personal decisions about how much of your portfolio to allocate to various investment categories, such as stocks, bonds, and cash. Some factors to consider when deciding how much to allocate to bonds include:

Your risk tolerance. The advantage of including both stocks and bonds in your portfolio is that when one category is declining, the other category will hopefully help offset this decline. One way to assess the percentage of bonds to include in your portfolio is to look at how holding varying percentages of stocks and bonds would have impacted your average return.

Your time horizon. The longer your time horizon for investing, the more risk you can typically tolerate in your portfolio.

Your return needs. Your need to emphasize income or growth is likely to change over your life. When your needs for a predictable income stream become more important, such as when retirement approaches, you may want to allocate more to bonds. ❍❍❍

Financial Thoughts

It is estimated that the richest 1% of Americans hide a fifth of their income from the Internal Revenue Service. Collecting all unpaid income taxes from the top 1% would boost revenue to the U.S. Treasury by $175 billion a year (Source: *Financial Advisor Magazine*, May 2021).

The median annual salary for college graduates is $64,896, compared to $38,792 for high school graduates. Jobs that require a college degree are also more likely to come with benefits such as health insurance and a 401(k) retirement plan. And unemployment rates are much lower for college graduates (Source: *Financial Advisor Magazine*, May 2021).

The composition of the members of a Board of Directors influences dividend policy. Having at least one woman serving on the board was found to be associated with a higher likelihood of dividend payments and an increase in the yield of the dividend paid. Older directors have a higher likelihood of paying dividends than younger directors. The larger the board, the more likely the company will pay dividends and the higher the yield will likely be (Source: *AAII Journal*, April 2021). ❍❍❍